AR54

Anglo-Canadian Telephone Company

715 VICTORIA SQUARE, MONTREAL, QUEBEC H2Y 2H7

ANNUAL REPORT 1975

ANGLO-CANADIAN TELEPHONE COMPANY (Incorporated under the Quebec Companies Act)

Directors

THEODORE F. BROPHY
ROGER CHARBONNEAU
JOHN H. E. COLBY
JOHN J. DOUGLAS
CHARLES G. FARRIS
WILFRED R. JOYCE
DAVID L. TORREY
LESLIE H. WARNER

Officers

JOHN J. DOUGLAS
President

WILFRED R. JOYCE
Vice-President, Secretary and Treasurer

JOEL P. MELLIS
Assistant Secretary

RICHARD F. HARDY
Assistant Treasurer

Transfer Agents and Registrars

CUMULATIVE PREFERRED STOCK
The Royal Trust Company, Montreal, Quebec, Canada
Co-Transfer and Co-Registrar Offices at
Toronto, Winnipeg, Vancouver, Saint John, Halifax and Calgary

COMMON STOCK
The Company

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au secrétaire,
Anglo-Canadian Telephone Company, 715, carré Victoria, Montréal, Québec H2Y 2H7

To the Shareholders:

March 12, 1976

Strong growth in consolidated revenues and net income was achieved by Anglo-Canadian Telephone Company (Anglo) in the year 1975 despite the high level of inflation and the economic recession that was present throughout the year. This accomplishment is a tribute to the management of our subsidiary companies whose efforts under difficult circumstances were so effective.

Consolidated operating revenues increased during the year 1975 by 18.9% to $445,007,000 while consolidated net income amounted to $23,654,000, a gain of 20.5% over 1974. The increase in revenues reflected the benefits from rate increases authorized by regulatory authorities in Canada and the addition of 121,673 telephones in our telephone operating company subsidiaries in Canada and the Dominican Republic. The continuation of cost control programs within the companies also contributed substantially to the overall earnings improvement.

The ever-increasing demands of our telephone companies' customers for new and improved grades of service required expenditures of $295 million for new capital equipment in the year 1975. Expenditures for construction in 1976 are presently estimated to total $375 million.

The number of telephones in service at year-end 1975 totaled 1,794,733, an increase of 7.3% during the year. The significance of this growth is more apparent when compared with the growth in telephones served experienced by the entire United States telephone industry which has averaged less than 5% over the past five years.

British Columbia continues to be the fastest growing Canadian Province in terms of population, and the trend is presently expected to continue for the foreseeable future. British Columbia Telephone Company, 51% owned by Anglo, and its subsidiary, Okanagan Telephone Company, reported telephones in service at year-end 1975 of 1,473,183, an increase of 6.5% for the year. Gross expenditures for new plant and equipment during 1975 amounted to $230 million and increased construction expenditures are planned for 1976. While operating revenues of $360,687,000 in 1975 represented an increase of 19.1% over the prior year, the effect of cost saving programs also played a prominent role in the reported net income available for ordinary shares which amounted to $26,859,000, compared with $18,756,000 in 1974. The combination of rate increases and cost reductions achieved in 1975 substantially improved the return on British Columbia Telephone Company's huge investment in telephone plant. Earnings per average ordinary share outstanding for the year were $1.43 compared with $1.11 for 1974, adjusted for the 5-for-1 ordinary share split in 1975.

Québec-Téléphone, 54% owned by Anglo, increased telephones in service during the year by 9.7% to a total of 217,118. Operating revenues increased 19.2% to $56,570,000 and net income available for ordinary shares in 1975 was $5,117,000, an increase of 21.2% over the strike-depressed prior year. Again the effect of cost savings programs and rate increases contributed importantly to the reported improvement in net income. Earnings per share increased to $2.18 compared with $1.80 for 1974. Québec-Téléphone presently expects that the number of telephones it serves will increase by nearly 25% in the next three years, indicating that expenditures for new plant and equipment will continue at a high level.

Compania Dominicana de Telefonos, C. por A., a wholly-owned subsidiary of Anglo, continued to direct its efforts to meet the constant demand for expansion of telephone service within the Dominican Republic. Telephones in service at the year-end numbered 104,432, an increase of 13.6% during the year. Operating revenues increased during the year by 16% to $23,276,000 while net income of $6,105,000 was 8% lower than 1974. The high cost of interest on extensive borrowings for new capital equipment and the increased cost of labor and materials were significant factors in the downturn in this subsidiary's earnings. The number of telephones served by this subsidiary has more than doubled in the past five years, while the increases in financing costs, wages and other operating costs in an inflationary economy have gradually eroded its return on investment. The management is reviewing the inadequacy of present rates relative to the higher costs of providing good telephone service in the Dominican Republic to determine the tariff revisions that may be required.

The performance of our subsidiary companies in recent difficult periods provides strong evidence that our companies are managed by people who will successfully respond to the problems and opportunities of the rapidly growing telecommunications industry in the promising future.

On Behalf of the Board of Directors

John J Douglas

President

Consolidated Balance Sheets
December 31, 1975 and 1974

Assets

	1975	1974
	(Thousands of dollars)	
FIXED ASSETS:		
Telephone plant, at cost	$1,782,490	$1,529,745
Accumulated depreciation (Note 1)	(374,668)	(331,215)
	1,407,822	1,198,530
Cost of investments in subsidiaries in excess of underlying book value as of the dates of acquisition	33,457	33,707
	1,441,279	1,232,237
INVESTMENTS AND OTHER ASSETS, at cost	4,834	4,902
CURRENT ASSETS:		
Cash and short-term deposits	7,040	3,839
Receivables (including unbilled revenues)	80,375	53,195
Materials and supplies, at average cost	25,873	26,491
Prepayments and other	7,138	6,171
	120,426	89,696
DEFERRED CHARGES:		
Unamortized cost of issuing long-term debt	1,748	1,330
Other deferred charges (Note 1)	10,508	12,112
	12,256	13,442
	$1,578,795	$1,340,277

Signed on behalf of the Board:

DAVID L. TORREY, Director JOHN J. DOUGLAS, Director

The accompanying notes form an integral part of these consolidated financial statements.

Shareholders' Interest and Liabilities

	1975	1974
	(Thousands of dollars)	
COMMON SHARE EQUITY:		
Common shares (Note 2)	$ 12,037	$ 12,037
Premium on common shares	34,218	34,218
Retained earnings (Note 3)	145,315	124,168
Anglo-Canadian common share equity	191,570	170,423
Minority interest in subsidiaries	134,748	128,799
Total common share equity	326,318	299,222
PREFERRED AND PREFERENCE SHARES (See page 8):		
Anglo-Canadian preferred shares	37,500	37,500
Subsidiaries' preference and preferred shares	170,615	136,482
Total preferred and preference shares	208,115	173,982
LONG-TERM DEBT (See page 8)	639,898	496,814
SHORT-TERM OBLIGATIONS (due within one year) (Note 1):		
Notes payable to banks (average interest rates of 9.41% and 11%, respectively)	59,093	57,650
Commercial paper (average interest rates of 9.28% and 10.43%, respectively)	49,070	39,867
Current portion of long-term debt	2,510	43,703
	110,673	141,220
CURRENT LIABILITIES (excluding short-term obligations):		
Accounts payable and accrued liabilities	41,013	32,504
Due to affiliates	14,955	9,848
Advance billings and customer deposits	11,626	9,924
Dividends	4,899	4,569
Accrued interest	14,604	10,817
Accrued taxes	1,058	6,446
	88,155	74,108
DEFERRED CREDITS (Note 1)	205,636	154,931
CONSTRUCTION PROGRAMS AND COMMITMENTS (Notes 1 and 4)		
	$1,578,795	$1,340,277

Consolidated Statements of Income

For the years ended December 31, 1975 and 1974

	1975	1974
	(Thousands of dollars)	
OPERATING REVENUES:		
Local service	$184,953	$154,362
Toll service	244,170	204,661
Miscellaneous	21,125	18,525
Provision for uncollectible accounts	(5,241)	(3,409)
	445,007	374,139
OPERATING EXPENSES AND TAXES:		
Maintenance	90,631	78,586
Depreciation (Note 1)	79,707	68,299
Traffic	35,690	33,117
Commercial	30,727	25,535
General, administrative and other	50,851	42,627
General taxes	20,532	15,957
Provision for Federal and Provincial income taxes	41,406	31,620
	349,544	295,741
Operating income	95,463	78,398
MISCELLANEOUS INCOME — NET (Note 1)	9,849	5,779
	105,312	84,177
INTEREST AND OTHER DEDUCTIONS:		
Interest on long-term debt	47,013	37,967
Other interest and amortization of discount and cost of issuing long-term debt	9,673	8,343
	56,686	46,310
Income before outside shareholders' interest	48,626	37,867
OUTSIDE SHAREHOLDERS' INTEREST:		
Preference and preferred dividends of subsidiaries	9,429	7,130
Minority interest in net income of subsidiaries	15,543	11,108
	24,972	18,238
Consolidated net income	$ 23,654	$ 19,629

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31, 1975 and 1974

	1975	1974
	(Thousands of dollars)	
BALANCE AT BEGINNING OF YEAR	$124,168	$106,708
ADD—		
Consolidated net income	23,654	19,629
	147,822	126,337
DEDUCT—		
Dividends paid or provided for on Cumulative Preferred shares		
$4\frac{1}{2}$% Cumulative Preferred shares	281	281
$2.90 Cumulative Preferred shares	363	363
$2.65 Cumulative Preferred shares	848	848
$3.15 Cumulative Preferred shares	567	567
Share issue expenses	448	110
	2,507	2,169
BALANCE AT END OF YEAR (Note 3)	$145,315	$124,168

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1975 and 1974

	1975	1974
	(Thousands of dollars)	
SOURCE OF FUNDS:		
From operations		
Consolidated net income	$ 23,654	$ 19,629
Less — Dividends paid on preferred shares	2,059	2,059
	21,595	17,570
Add — Expenses not requiring cash outlay:		
Depreciation	79,707	68,299
Deferred income taxes	50,107	26,592
Other	2,788	2,456
	154,197	114,917
Increase in minority interest in subsidiaries	5,949	14,187
Sale or issuance of equity securities of subsidiaries	34,113	16,135
Sale or issuance of long-term debt	143,084	19,112
Decrease (increase) in deferred charges	1,186	(4,757)
	$338,529	$159,594
USE OF FUNDS:		
Capital expenditures	$289,629	$237,635
Increase in working capital	16,683	10,107
Decrease (increase) in short-term obligations	30,547	(89,745)
Other	1,670	1,597
	$338,529	$159,594

The accompanying notes form an integral part of these consolidated financial statements.

Summary of Preferred and Preference Shares and Long-Term Debt

December 31, 1975

	Shares	Amount (Thousands of dollars)
PREFERRED AND PREFERENCE SHARES:		
Anglo-Canadian Preferred Shares, par value $50 per share, cumulative dividend. Authorized 1,000,000 shares redeemable at $53 per share; outstanding 750,000 shares:		
$4^1/_2$% Cumulative Preferred shares	125,000	$ 6,250
$2.90 Cumulative Preferred shares	125,000	6,250
$2.65 Cumulative Preferred shares	320,000	16,000
$3.15 Cumulative Preferred shares	180,000	9,000
		37,500
Subsidiaries' Preference and Preferred shares:		
British Columbia Telephone Company		
6% Cumulative Preference and Preferred shares ($100 par value)		5,500
$4^3/_8$% to $5^3/_4$% Cumulative Redeemable Preferred shares ($100 par value)		48,000
4.84% to 10.16% Cumulative Redeemable Preferred shares ($25 par value)		95,300
Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)		
40¢ Cumulative Redeemable Preferred shares ($9 par value)		450
Québec-Téléphone		
5% Cumulative Sinking Fund Redeemable Preferred shares ($20 par value)		1,710
$4^3/_4$% to $9^3/_4$% Cumulative Redeemable Preferred shares ($20 par value)		19,628
6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A ($15 par value)		27
		170,615
Total preferred and preference shares		$208,115
LONG-TERM DEBT:		
Anglo-Canadian Telephone Company		
$6^1/_2$% Sinking Fund Debentures, Series A, due 1983		$ 1,820
British Columbia Telephone Company		
First Mortgage Bonds 5% to 11%, due 1978-1998		542,372
Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)		
General Mortgage Sinking Fund Bonds $5^3/_4$% to $6^1/_2$% due 1977-1986		5,048
Québec-Téléphone		
First Mortgage Redeemable Sinking Fund Bonds $5^1/_2$% to $11^7/_8$% due 1982-1995		68,746
General Mortgage Sinking Fund Bonds $5^3/_4$% to 6% due 1977-1983		6,500
Compania Dominicana de Telefonos, C. por A.		
Notes payable 6% to $9^1/_2$% due 1977-1985		23,530
Total principal amount		648,016
Less—Unamortized discount on long-term debt		8,118
Total long-term debt		$639,898

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements
For the years ended December 31, 1975 and 1974

1. Summary of Significant Accounting Policies

a) Principles of consolidation

All subsidiaries have been included in the consolidated financial statements. Dominican pesos have been translated at par with the Canadian dollar.

The subsidiaries and equity ownership at December 31, 1975 are as follows:	Percent Owned
British Columbia Telephone Company	50.82
Compania Dominicana de Telefonos, C. por A.	100.00
Dominion Directory Company Limited	100.00
Québec-Téléphone	54.40
York Investment Co. Ltd.	100.00

Compania Dominicana de Telefonos, C. por A. is a telephone operating company in the Dominican Republic. The Company's investment in and amounts due from Compania Dominicana at December 31, 1975 and 1974 amounted to $14,295,000 and $9,527,000, respectively, and the net assets of Compania Dominicana at these dates were $43,637,000 and $38,365,000, respectively. Net income of Compania Dominicana included in consolidated net income was $6,105,000 in 1975 and $6,666,000 in 1974.

Under the terms of the original contract made with the Government of the Dominican Republic, the Dominican Government has the right to acquire, at any time, the telephone, telegraph and radio-telegraph property and related assets and liabilities of Compania Dominicana at underlying book value.

b) Depreciation of Telephone Plant

Depreciation is provided on the straight-line method, for book purposes, based on engineering studies of the estimated lives and salvage value of the various classes of depreciable property.

c) Short-term obligations

The short-term obligations have been used, directly or indirectly, to finance the subsidiaries' construction programs. These short-term obligations (including currently maturing long-term debt) have been excluded from current liabilities because it is expected that they will in time be refinanced by issues of long-term debt or equity capital. It is also expected that the companies will continue to enter into new short-term obligations, as the construction programs continue.

d) Deferred credits

Certain subsidiaries are presently claiming for income tax purposes capital cost allowance in excess of depreciation charged to the accounts and other expenditures which are capitalized in their accounts. The resulting reduction in income taxes is deferred. The balance of taxes deferred by the subsidiaries included in Deferred Credits amounted to $203,720,000 and $153,612,000 as of December 31, 1975 and 1974 respectively.

e) Other deferred charges

These charges represent purchases of materials, salaries, and other items which will be distributed principally to the telephone plant in the next year.

f) Allowance for funds used during construction

Miscellaneous income-net includes a credit for the allowance for funds used during construction of $6,441,000 in 1975 and $5,298,000 in 1974.

g) Pension plans

All companies maintain funded pension plans for the benefit of substantially all employees. The actuarially determined aggregate cost of maintaining the pension plans, including amortization of unfunded costs over periods not exceeding 25 years from January 1, 1965 was $11,480,000 in 1975 and $9,957,000 in 1974, respectively. Such amounts were paid to trustees. The pension fund assets exceeded the actuarially computed value of the vested pension benefits of the plans at December 31, 1973, the latest valuation date. The present value of the estimated unfunded costs amounted to approximately $9,162,000 at December 31, 1975. At December 31, 1974, the pension portion of a plan under a collective agreement of a subsidiary was frozen, resulting in no liability for unfunded past service, which amounted to $6,278,000 as of that date.

2. Common Shares, $10 par Value

Authorized — 1,700,000 shares

Issued and outstanding — 1,203,685 shares

3. Retained Earnings

Under the terms (the most restrictive) of the Trust Deed pursuant to which the $6\frac{1}{2}\%$ Sinking Fund Debentures Series A were issued by Anglo-Canadian Telephone Company, $4,789,000 of the consolidated retained earnings at December 31, 1975 were restricted as to the payment of common dividends.

4. Construction Programs

The telephone subsidiaries' 1976 construction programs, as now planned, approximate $375,000,000 for which substantial purchase commitments have been made. These construction programs will be financed by cash available from operations and short-term obligations pending permanent financing.

5. Anti-Inflation Guidelines

The Anti-Inflation Act of 1975 provides for the restraints of prices, profits, dividends and employee compensation. The Company and its Canadian subsidiaries are subject to the Act and the attendant regulations. While the Company and its subsidiaries are able to determine that they do not have excess revenues for the year 1975, they are not able to determine the effect, if any, on their future business.

Auditors' Report

To the Shareholders of
Anglo-Canadian Telephone Company:

We have examined the consolidated balance sheets and the summary of preferred and preference shares and long-term debt of Anglo-Canadian Telephone Company (a Quebec company) and subsidiaries as of December 31, 1975 and 1974, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Anglo-Canadian Telephone Company and subsidiaries as of December 31, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a basis consistent during the periods.

Arthur Andersen & Co.,
Chartered Accountants.

Montreal, January 23, 1976

GTE

Printed in Canada Plow & Watters Printing Limited, Montre